

**PUBLIC DISCLOSURE**

AUGUST 30, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MERRIMAC SAVINGS BANK

1 WEST MAIN STREET  
MERRIMAC, MA 01860

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## **GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Merrimac Savings Bank** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

Merrimac Savings Bank's overall CRA rating is based upon its performance in the five criteria contained herein. The following is a summarization of the findings that were utilized in formulating the bank's overall CRA rating.

The bank's net loan to deposit ratio averaged 46.6 percent over the last eight quarters. The ratio has been on a consistent downward trend and stands at 41.0 percent as of June 30, 1999. This performance criterion was rated as "does not meet the standards for satisfactory performance".

A majority of Merrimac Savings Bank's HMDA-reportable loans were originated within its assessment area (71.0% by number and 71.6% by dollar).

Merrimac Savings Bank has demonstrated a reasonable distribution of HMDA-reportable lending to individuals of low and moderate-income (40.9 percent by number and 27.5 percent by dollar amount).

There are no low or moderate-income census tracts within the assessment area. However, the bank achieved a reasonable dispersion of lending among the various census tracts proportionate to the representation within the assessment area.

Finally, Merrimac Savings Bank's fair lending policies and practices are considered reasonable. No weight was given to a review of complaints, as none has been received since the prior examination.

## **PERFORMANCE CONTEXT**

## **Description of Institution**

Merrimac Savings Bank is a mutually owned savings institution, incorporated under the laws of the Commonwealth of Massachusetts in 1871. The bank has one office located at One West Main Street, Merrimac, Massachusetts. As of June 30, 1999, the bank had total assets of \$32.6 million with total loans representing \$12.4 million or 38.0 percent of total assets. Merrimac Savings Bank is primarily a residential mortgage lender with its portfolio centered in 1-4 family residential real estate loans.

The bank currently employs 10 full-time individuals. Office hours are convenient and accessible to the residents of Merrimac. During the week, the Main Office is open from 9:00am to 3:00pm Monday, Tuesday and Thursday. The bank is open Wednesday from 9:00am to 12:00pm. Banking hours are extended on Friday until 7:00pm. The bank does not offer Saturday banking hours. Drive-up banking is available for extra convenience to customers of the bank. The hours are the same as the bank's lobby hours. The bank also maintains an Automated Teller Machine (ATM), which is linked to the NYCE and SUM networks.

Merrimac Savings Bank offers various types of lending products including adjustable rate mortgage loans, fixed rate mortgage loans, construction loans, passbook collateral loans, automobile loans, student loans, and home improvement loans.

The following table details the bank's loan portfolio as a percent of average gross loans. This information was obtained from the Uniform Bank Performance Report (UBPR) as of June 30, 1999.

<b><i>Loan Portfolio as of June 30, 1999</i></b>	
Type of Loans	% of Average Gross Loans
Construction & Land Development	8.4%
Residential Real Estate	
a. 1-4 Family Mortgages	58.3%
b. Home Equity Lines	0.0%
Multifamily	6.4%
Commercial Loans	
a. Commercial Real Estate	19.0%
b. Commercial & Industrial Loans	1.3%
c. Agricultural Loans	0.0%
Consumer Loans	
a. Credit Cards & Related Plans	0.0%
b. Loans to Individuals	6.6%
Other Loans	
a. Loans to Financial Institutions	0.0%
b. Municipal Loans	0.0%
c. Farmland Real Estate Loans	0.0%
d. Other	0.0%
<b>Total</b>	<b>100.0%</b>

Source: Uniform Bank Performance Report (UBPR 6/30/99).

As shown by the data in the table above, residential real estate is the bank's primary form of credit activity. Loans secured by one-to-four family residential property account for approximately 58.3 percent of all outstanding credit. Commercial real estate loans are next with 19.0 percent, followed by construction and land development with 8.4 percent.

Based on the bank's 1997 Home Mortgage Disclosure Act/Loan Application Register (HMDA/LAR) data, Merrimac Savings Bank ranked 11th out of all other HMDA-reporting lenders within its defined assessment area with 1.73 percent of the market share. There were 165 HMDA-reporting mortgage lenders active within the assessment area in 1997. In addition, Merrimac Savings Bank has direct competition with Economy Co-operative Bank. It should be noted that at the time of the examination 1998 aggregate data was not available and therefore the analysis was based on 1997 aggregate data.

The bank's most recent Community Reinvestment Act (CRA) evaluation, performed by the FDIC as of February 3, 1998 assigned a rating of "Satisfactory". The previous evaluation performed by the Commonwealth of Massachusetts as of May 24, 1996 also assigned a rating of "Satisfactory".

## **Description of Assessment Area**

Merrimac Savings Bank defines its assessment area as the towns of Merrimac and West Newbury, Massachusetts, and Newton, New Hampshire. The two Massachusetts towns are located in Essex County, while Newton, New Hampshire is in Rockingham County. All three towns are in the Lawrence Metropolitan Statistical Area (MSA). In December 1998, management conducted its annual review of the lending and deposit levels within its assessment area. As a result of this review, management revised its assessment area to these towns. The assessment area during the previous FDIC examination and for calendar year 1997 consisted of the towns of Merrimac, Groveland, and West Newbury, Massachusetts.

The Town of Merrimac is situated near the New Hampshire border and is easily accessible from both Interstates 495 and 95. The towns of West Newbury, Massachusetts and Newton, New Hampshire both border the Town of Merrimac. In addition, there are two trailer parks in the Town of Merrimac, which house many low-income and elderly residents.

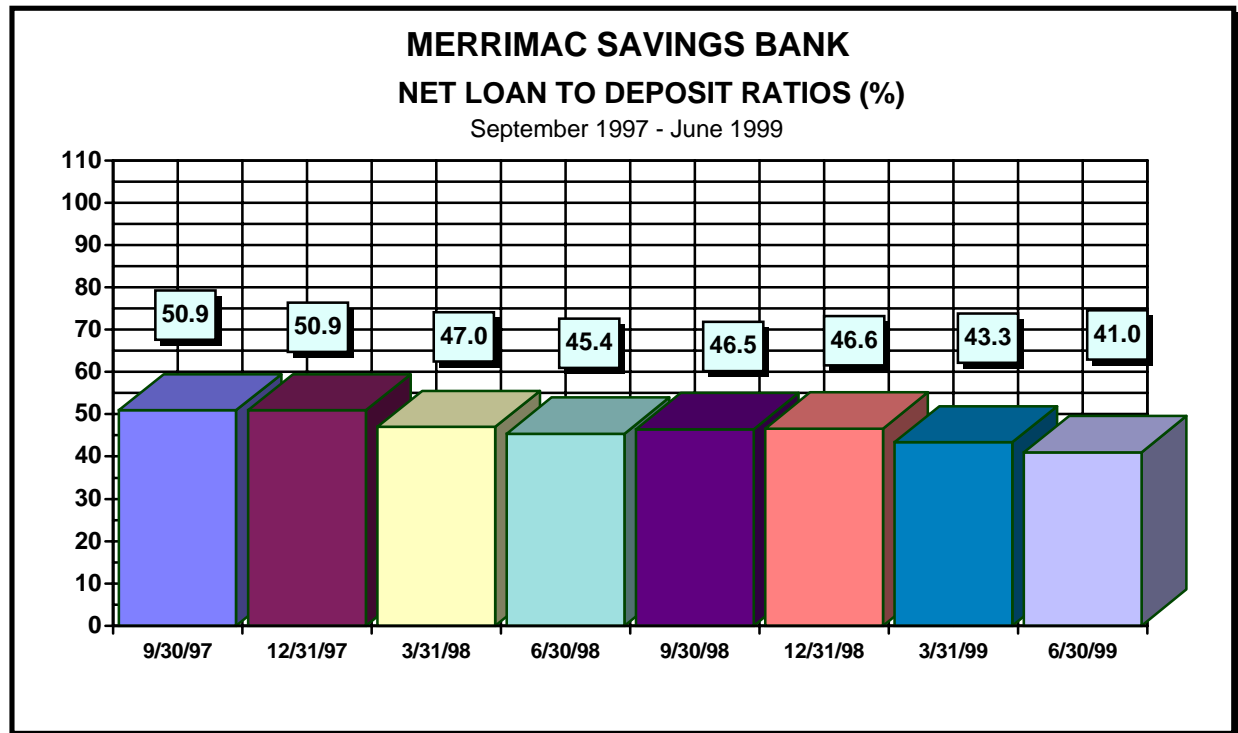
The assessment area consists of two middle-income census tracts and one upper-income census tract. According to the 1990 Census, the total population is 12,079 and the median household income in the assessment area is \$45,223. There are 4,414 housing units within the assessment area, of which 79.3 percent are owner occupied, 17.0 percent are rental, and 3.7 percent are vacant. The median home value of the assessment area is \$169,499.

## **PERFORMANCE CRITERIA**

### **1. NET LOAN TO DEPOSIT ANALYSIS**

Merrimac Savings Bank's average net loan to deposit ratio was calculated by using the data reported in the previous eight quarterly FDIC Call Reports. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The bank's average net loan-to-deposit ratio for the period of September 30, 1997 through June 30, 1999 is 46.5 percent. At the previous state examination on May 24, 1996, the average net loan to deposit ratio was calculated to be 61.7 percent. The asset size of the institution has increased from \$30.6 million as of June 30, 1998 to \$32.6 million as of June 30, 1999. During this time, net loans decreased approximately 2.9 percent, while deposits have increased approximately 7.5 percent. This deposit growth, combined with the lack of loan growth, is the primary reason for the decline of the bank's net loan to deposit ratio. As indicated in the table below, the bank's net loan to deposit ratio stands at 41.0 percent as of June 30, 1999, and appears to be on

a declining trend. The following graph depicts the net loan to deposit ratio for each quarter under review.



The following table compares the net loan-to-deposit ratio of three other institutions in the area. The ratios shown are calculated from the FDIC's Call Report data for March 31, 1999, and ranged from 97.1 percent to 43.3 percent.

INSTITUTION	NET LOAN TO DEPOSIT RATIO (3/31/99)
Economy Co-operative Bank	97.1%
Amesbury Co-operative Bank	70.3%
Haverhill Co-operative Bank	65.7%
<b>Merrimac Savings Bank</b>	<b>43.3%</b>

As mentioned above, Merrimac Savings Bank's loan-to-deposit ratio has been on a declining trend. Management attributes this decline to the fact that they do not offer a 30-year fixed rate mortgage loan product. Since the bank does not offer this loan product, it has not been able to replace the large number of paid off loans.

Based on the above information, the bank's asset size and resources, competition, and the credit needs of the assessment area, the bank's net loan to deposit ratio does not meet the standards for satisfactory performance.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA

Merrimac Savings Bank's 1998 and year-to-date August 30, 1999 Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the bank's delineated assessment area. The LAR consists of home purchase loans, home improvement loans and refinances on both one-to-four family and multifamily (five or more) properties. During the above period, the bank originated 31 mortgage loans totaling approximately \$3,063,000. Of this amount, 22 loans, or 71.0 percent of the number, totaling \$2,193,000, or 71.6 percent of the dollar amount, was originated in the bank's assessment area.

Refer to the following tables for additional information regarding the bank's lending, by both number and dollar amount.

### HMDA-Reportable Loans by Number of Originations

Location	1998		YTD-1999		Totals	
	#	%	#	%	#	%
Merrimac	10	47.6	8	80.0	18	58.1
West Newbury	3	14.3	0	0.0	3	9.7
Newton, NH	1	4.8	0	0.0	1	3.2
<b>Inside Assessment Area</b>	<b>14</b>	<b>66.7</b>	<b>8</b>	<b>80.0</b>	<b>22</b>	<b>71.0</b>
Outside Assessment Area	7	33.3	2	20.0	9	29.0
<b>Total</b>	<b>21</b>	<b>100.0</b>	<b>10</b>	<b>100.0</b>	<b>31</b>	<b>100.0</b>

Source: HMDA/LAR Data for the period 1/1/98 to 8/30/99

### HMDA-Reportable Loans by Dollar Amount of Originations

Location	1998		YTD-1999		Totals	
	\$ (000)	%	\$ (000)	%	\$ (000)	%
Merrimac	927	44.0	778	81.6	1,705	55.7
West Newbury	420	19.9	0	0.0	420	13.7
Newton, NH	68	3.2	0	0.0	68	2.2
<b>Inside Assessment Area</b>	<b>1,415</b>	<b>67.1</b>	<b>778</b>	<b>81.6</b>	<b>2,193</b>	<b>71.6</b>
Outside Assessment Area	694	32.9	176	18.4	870	28.4
<b>Total</b>	<b>2,109</b>	<b>100.0</b>	<b>954</b>	<b>100.0</b>	<b>3,063</b>	<b>100.0</b>

Source: HMDA/LAR Data for the period 1/1/98 to 8/30/99

Market statistical data for calendar year 1997 (the most recent aggregate data available) compiled by PCI Services, Inc. CRA Wiz, indicated that Merrimac Savings Bank ranked 11<sup>th</sup> with 1.73 percent in market share among HMDA-reportable originations and purchases throughout the assessment area

Based on all of the above information, it is evident that a reasonable percentage, by number and dollar amount, of the bank's loans has been extended within its assessment area. Therefore, the institution's level of lending within its assessment area is considered to meet the standards for satisfactory performance.

### 3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family income (MFI) for the Lawrence Metropolitan Statistical Area (MSA) due to the location of the property. These income figures are based on estimated Department of Housing and Urban Development (HUD) information. The estimated MFI for the Lawrence MSA is \$56,700 for 1998, and \$57,900 for 1999.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following tables show, by number and dollar amount, loans to low, moderate, middle and upper-income borrowers in comparison to the number of family households in the assessment area in each respective income group.

#### **Distribution of HMDA-Reportable Loans within the Assessment Area to Borrowers of Different Income Levels by Number**

Borrower Income Level	Family Households		1998		1999-YTD		Total	
	#	%	#	%	#	%	#	%
< 50%	439	12.8	2	14.3	1	12.5	3	13.6
50 - 79%	627	18.3	3	21.4	3	37.5	6	27.3
80 - 119%	1,068	31.1	4	28.6	3	37.5	7	31.8
> = 120%	1,298	37.8	5	35.7	1	12.5	6	27.3
<b>Total</b>	<b>3,432</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>

Source: HMDA/LAR Data for the period 1/1/98 to 8/30/99

#### **Distribution of HMDA-Reportable Loans within the Assessment Area to Borrowers of Different Income Levels by Dollar Amount**

Borrower Income Level	Family Households		1998		1999-YTD		Total	
	#	%	\$ (000)	%	\$ (000)	%	\$ (000)	%
< 50%	439	12.8	138	9.8	31	4.0	169	7.7
50 - 79%	627	18.3	218	15.4	217	27.9	435	19.8
80 - 119%	1,068	31.1	301	21.2	395	50.8	696	31.8
> = 120%	1,298	37.8	758	53.6	135	17.3	893	40.7



<b>Total</b>	<b>3,432</b>	<b>100.0</b>	<b>1,415</b>	<b>100.0</b>	<b>778</b>	<b>100.0</b>	<b>2,193</b>	<b>100.0</b>
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Source: HMDA/LAR Data for the period 1/1/98 to 8/30/99

In 1998 and year-to-date August 30, 1999, the bank extended 3 loans to low-income borrowers representing 13.6 percent by number and 7.7 percent by dollar amount of the bank's total loans in the assessment area. These percentages are comparable to the 12.8 percent of families in the low-income borrower group.

In addition, the bank extended 6 loans to moderate-income borrowers, representing 27.3 percent by number, as shown above. These loans represent 19.8 percent by dollar amount of the bank's total originations within its assessment area. The percentage of loans is also comparable to the 18.3 percent of moderate-income families within the assessment area.

The distribution of the bank's loans among various borrower income levels may also be compared to that of all other HMDA-reportable lenders in the assessment area for calendar year 1997 (the most recent aggregate data available). Other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies.

The bank's percentage of lending in 1997 to borrowers of low and moderate-income was 50.0 percent by number and 19.9 percent by dollar amount compared to the aggregate, which originated 11.9 percent by number and 7.3 percent by dollar amount to low and moderate-income borrowers in the assessment area.

However, because of the minimal number of loans in the assessment area (12) originated by the bank in 1997, it is not possible to draw a statistical conclusion in comparison to other lenders. Therefore little weight is placed on this particular analysis.

The distribution of lending by borrower income in comparison to the number of family households and the aggregate demonstrates the bank's willingness to lend to borrowers of all income levels, including those of low and moderate-income. Therefore, Merrimac Savings Bank's lending distribution by borrower income levels is considered to meet the standards for satisfactory performance.

#### **4. GEOGRAPHIC DISTRIBUTION OF LOANS**

The HMDA-reportable loans located within the bank's assessment area were further analyzed to determine their location by census tract income level. However, the assessment area is comprised of only three census tracts: two or 66.7 percent designated as middle-income and one or 33.3 percent designated as upper-income. As mentioned under the lending to borrowers of different income section, the bank is not excluding low and moderate-income individuals.

The majority of the bank's residential loans (86.4 percent by number and 80.8 percent by dollar amount) are located in middle-income census tracts. The remaining

percentages were in the upper-income tracts. These percentages appear to be reflective of the distribution of census tracts in the assessment area.

Based upon the current distribution of loans in the assessment area, the geographic distribution of Merrimac Savings Bank's HMDA-reportable lending is considered to meet the standards for satisfactory performance.

## **5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES**

Based upon the review of the bank's public comment file and its performance relative to fair lending policies and practices the institution meets the standards for satisfactory performance.

### ***REVIEW OF COMPLAINTS***

A thorough review of the public comment file revealed that the bank received no complaints pertaining to its CRA performance since the previous examination.

### ***FAIR LENDING POLICIES AND PRACTICES***

Detailed below is Merrimac Savings Bank's fair lending performance as it correlates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

### **STAFF TRAINING**

The bank does not have a formal staff training program designed to educate employees about fair lending laws and regulations.

### **STAFF COMPOSITION AND COMPENSATION**

Merrimac Savings Bank has a staff of 10 full-time employees, none of which is a minority.

The bank's loan originator is not compensated on a commission basis, therefore loans of all amounts including those to low and moderate-income individuals are encouraged.

### **OUTREACH**

Merrimac Savings Bank ascertains the credit needs of the assessment area through active involvement in numerous community organizations located in the Town of Merrimac and in the surrounding area.

### **CREDIT PRODUCTS AND UNDERWRITING STANDARDS**

The bank has an agreement with Plymouth Savings Bank to refer customers who desire a credit product that Merrimac Savings Bank does not have.

## **MARKETING**

Merrimac Savings Bank's advertising reaches individuals of all income levels and effectively covers the entire delineated assessment area. The bank utilizes print and local cable to advertise its credit products and services. The bank advertises mostly in the West Newbury News, a local community newspaper with distribution throughout the assessment area.

## **CREDIT EDUCATION**

The bank has not participated in any formal credit education seminars since the previous examination.

## **COUNSELING**

Merrimac Savings Bank refers all loan customers whose home loan is delinquent to the appropriate credit counseling services available in the area. In addition, the bank is willing to work with any customers that are experiencing credit difficulties.

## **SECOND REVIEW PRACTICES**

A loan application that is denied by the lending officer is given a second review by the bank's president. If the application is still denied, it is sent to the Board of Investments for a final review before an adverse action notice is sent to the applicant.

## **INTERNAL CONTROL PROCEDURES**

The bank's Vice-President tracks the location of loans and deposits on a regular basis to ensure that the bank is serving the needs of the community.

## **MINORITY APPLICATION FLOW**

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities. In 1998 and year-to-date 1999, the bank did not receive any applications from minority applicants. It should be noted that the minority population within the bank's assessment area represented only one percent.



# THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

## **MERRIMAC SAVINGS BANK**

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **AUGUST 30, 1999**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_

# PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.